

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF UNITED WATER IDAHO INC. FOR)	CASE NO. UWI-W-04-4
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR WATER SERVICE IN)	
THE STATE OF IDAHO)	ORDER NO. 29838
)	

This is a final Order determining the revenue requirement and setting rates for United Water Idaho Inc. (United Water; Company). By this Order, the Idaho Public Utilities Commission authorizes United Water to increase its revenues by \$2,435,516, or approximately 7.68%.

SUMMARY

On November 30, 2004, United Water filed an Application with the Commission for authority to increase its rates and charges for water service. United Water stated that additional revenues were necessary to recover increased operating expenses and costs associated with plant additions, and to produce a fair rate of return. The Company contended that the proposed changes in its rates and charges are just and reasonable and are necessary for the Company to continue to provide adequate and reliable service to its customers.

On December 2, 2004, the Commission suspended the Company's proposed schedule of rates and charges for a period of thirty (30) days plus five (5) months from the proposed effective date of December 30, 2004. Order No. 29654, *Idaho Code* § 61-622.

Public hearing in this case was held in Boise, Idaho on May 24-26, 2005. The following parties appeared by and through their respective counsel:

United Water Idaho:	Dean J. Miller McDevitt & Miller, LLP
Commission Staff:	Weldon B. Stutzman Donovan E. Walker Deputy Attorneys General
City of Boise:	Douglas K. Strickling Boise City Attorney's Office
Idaho Rivers United:	William M. Eddie Advocates for the West

Community Action Partnership:

Brad M. Purdy
Attorney at Law

Scott L. Campbell:

Scott L. Campbell
Attorney at Law

Sharon Ullman, although previously granted intervenor status, neither participated in nor appeared at the hearing.

As originally filed, United Water requested a revenue increase of \$6,767,870, resulting in a rate increase of approximately 22%. After Staff and intervenors filed testimony and exhibits, the Company reduced its requested revenue increase to \$5,607,040, or approximately 18%, calculated using a pro-forma, year-end/end of period test year methodology. Staff recommended an increase in revenue requirement of \$1,406,227, approximately a 4.5% increase in rates, calculated using a 13-month average test year methodology. After post-hearing briefs were filed and the record was closed, the Commission on June 24, 2005 issued Order No. 29810 to suspend the Company's proposed rates and charges for an additional 60 days, or until August 29, 2005, to give the Commission sufficient time to review the evidence and reach a decision. *See Idaho Code* § 61-622.

By this Order, the Commission (1) approves and adopts the use of a 13-month average test year methodology for calculating rate base, (2) includes the Columbia Water Treatment Plant (CWTP) in rate base as if in-service during the entire test year, (3) approves the Company's water rights investments in rate base, (4) accepts other pro forma adjustments to rate base, and (5) makes numerous adjustments to the Company's operating expenses and revenues as explained below. We approve a rate base for United Water of \$126,824,685. Attachment No. 1.

The Commission also approves two stipulations filed by the parties. First, we approve and adopt a Stipulation reached by the Company and Staff pertaining to the overall weighted cost of capital and rate of return for United Water. In approving that Stipulation, the Commission adopts a cost of debt of 6.675%, a return on equity of 10.3%, and an overall rate of return of 8.357%. The Commission also approves and adopts a Stipulation filed by United Water and Community Action Partnership Association of Idaho (CAPAI) establishing a small summer block rate and a modest water bill assistance program for low-income customers.

As the result of the Commission's decisions, we approve an increased revenue requirement of \$2,435,516, which we authorize the Company to recover by a uniform percentage increase in rates and charges for all customers.

This Order is based upon our review of the record in this case including the transcript of proceedings, exhibits, pleadings, the parties' post-hearing briefs, as well as the applicable laws of this state and rules of the Commission.

I. TEST YEAR

Test Year Rate Base Calculation and Related Revenue/Expense Adjustments

United Water filed its case with a test year ending July 31, 2004, and also proposed to make significant changes for known and measurable plant investments that occurred after the end of the test year through May 31, 2005. The Company used a year-end rate base calculation, that is, all plant added during or after the test year would be included in the test year at current or final cost projections. Staff opposed use of a year-end methodology, and instead recommended United Water's test year rate base be calculated using a 13-month average methodology, but allowing for some adjustments. By that method, plant and other rate base accounts are determined for each month of the test year, with the monthly rate base amounts averaged as a 13-month calculation. If plant is established to be currently used and useful, new plant investment occurring after close of the test year normally is included as if it were in service during only the last month of the test year. No party other than United Water and Staff presented evidence or argument on the rate base calculation methodology.

United Water's Rate Base Calculation

United Water testified that the rate base amount approved in its last rate case, \$98,862,937, increased to \$140,148,049 in this case, using a year-end calculation. Tr. p. 11. United Water calculated that its rate base increased, since its last rate case, by \$14,712,243 as of the end of the test year, which means the rate base increased after close of the test year by \$26,572,869, or nearly 24%. Tr. p. 1037. A large portion of the increase, nearly \$28 million, is attributable to a new water treatment facility called Columbia Water Treatment Plant (CWTP). The CWTP began operation in March 2005, approximately nine months after the end of the test year period. Tr. p. 157. According to United Water, the final costs for CWTP will be known by July 2005. *Id.*

In response to previously expressed Commission concerns about the effect of adding post-test year plant to the test year rate base, the Company proposed an adjustment to revenue and expenses associated with including the CWTP. The general manager of the Company, Greg Wyatt, testified that he reviewed the Commission's final Orders in the last Idaho Power Company (Order No. 29505) and Avista Corporation (Order No. 29602) rate cases. The Company acknowledged the Commission's concern about a mismatch between plant investment and revenue and expenses when post-test year plant is included in the test year as if in place during the entire year. Tr. p. 17. Accordingly, the Company "used its best efforts in proposing adjustments that both increase revenues and decrease expenses as a result of the addition of the CWTP." *Id.* The revenue adjustment attributable to the CWTP made by United Water was to increase test year revenue "by \$462,480 to account for additional customers, annualized at existing rates, from July 31, 2004, the end of the test year, through May 31, 2005." Tr. p. 18. United Water also made "an expense reduction adjustment for power and chemical expense of \$139,580 . . . to reflect changes in system operation caused by use of the CWTP." Tr. p. 20. These adjustments do not affect the Company's rate base, and were made by the Company to address a mismatch that would occur if the CWTP is included in the test year rate base as if it were in place during the entire test year.

United Water also presented evidence of plant investment other than CWTP, including more than \$2 million in wellhead treatment facilities, and \$3.5 million in water storage facilities to provide fire protection and improved water pressure on the system. Tr. pp. 11-12. The Company also invested approximately \$11 million to replace water mainline, 2,900 water services, and 22,000 meters. Tr. p. 12. Plant investment made by United Water after the test year, excluding CWTP, totaled approximately \$5 million. Tr. p. 786. The Company added all of the plant totals to the year-end test year at final cost numbers, regardless of when the investment was made, to reach a total proposed rate base of \$140,148,049.

Staff's Rate Base Calculation

Staff's proposed rate base methodology differed from United Water's in two significant respects. As mentioned, Staff recommended use of a 13-month average calculation, and also recommended all plant investment made after December 31, 2004 be entirely excluded from rate base. Staff did include the CWTP investment in the test year as if it were in place throughout the year, even though it was not substantially completed until March 2005. To

address the mismatch created by including the CWTP in the test year rate base, Staff also proposed to accept the CWTP related expense and revenue adjustments made by United Water.

Staff testified that United Water proposed to include approximately 90 post-test year investment projects in the test year, and to provide updated investment figures at the time of the hearing. Arguing that the Company's proposal prevented timely review by the Commission, Staff recommended a deadline of December 31, 2004 for plant to be included in the test year. Staff identified approximately \$5 million of post-test year plant investment, other than the CWTP, that the Company included in the test year. Staff testified that its test year proposal reduced United Water's revenue requirement by approximately \$2 million. Tr. p. 791. Staff also reduced the Company's proposed test year rate base from \$140,148,049 to \$125,652,848 at hearing.

Discussion and Commission Findings

Because both Staff and the Company included the CWTP in the test year rate base as if in place during the entire year, the largest difference in the rate base amounts results primarily from the disparate effect of the calculation methodologies. Under United Water's proposal, plant investment added late in the test year and all investments made *after* the test year are included at full investment cost. The averaging methodology proposed by Staff reduces the effect of including plant added late in the test year or after close of the test year. Because the Company selected a test year that ended prior to completion of significant plant investments, the average rate base calculation has a more significant effect than it would, had the Company selected a more current test year. As in recent cases for other utilities, the Commission finds use of the average rate base test year is more appropriate in this case than year-end. We modify the test year results as proposed by Staff, however, to include plant investment at March 31, 2005 for projects the Company projected would be essentially completed prior to the time of hearing.

As we noted in Order No. 29505, the Commission has historically approved use of an average rate base rather than a year-end rate base on which a utility can earn its authorized investment return. Order No. 29505 pp. 5-6. United Water objected to Staff's proposal to use an average rate base methodology in this case, in part because the Commission allowed it to use a year-end rate base in previous cases. It is true that United Water, or its predecessor Boise Water, filed four rate cases since 1993 and that the Commission approved its year-end rate base calculation in those cases. In the first such case, however, the Commission expressed

disapproval that the Company had not included an average rate base methodology, at least as an option for the Commission to consider. *See* Order No. 25062 p. 3. The Commission approved the Company's year-end calculation only because no party objected, and no other option was presented to the Commission. *Id.* The Commission also instructed the Company "to present, as an option, a 13-month average calculation of rate base in its next general rate case." *Id.* In the Company's rate cases since 1993, the year-end methodology was approved only because no party objected or proposed a different methodology. That history, along with United Water's review of the Commission's final Orders in the recent Idaho Power and Avista cases, provided the Company with adequate notice of the Commission's preference for the average rate base methodology.

Having determined that the average rate base methodology is appropriate, it still remains to account for in the test year rate base, the post-test year plant investment. Both Staff and the Company included the CWTP in the test year as if it were completed for the entire year. Other than a few adjustments to specific CWTP cost numbers, which we address later in this Order, the evidence on the effect of including the CWTP in rate base is uncontroverted. In addition, United Water addressed the Commission's concern of a mismatch created by including the CWTP in rate base by making adjustments to its test year revenue and expenses. Staff testified in support of the corresponding revenue and expense adjustments, and so the evidence on the adjustments as a means to correct the mismatch also is uncontroverted. The Commission accordingly finds it reasonable and appropriate to include the CWTP investment in rate base, and to accept the associated revenue and expense adjustments proposed by United Water. As discussed subsequently, we find on the evidence presented that it is reasonable to make adjustments to the total CWTP costs to be included in rate base.

We also find it reasonable under the facts of this case to recognize in rate base the other post-test year plant investment made by United Water. Staff raised a valid concern by recommending a cut-off date for including investment in the test year. It simply is not possible to carefully review investment cost figures and information that are provided close to or at the time of hearing. The Commission also is mindful, however, that United Water filed its case using a rate base methodology consistent with its last four rate cases. Rather than limit post-test year additions to those capital expenditures incurred by December 31, 2004 as proposed by Staff, we find it reasonable in this case to allow into rate base the post-test year capital expenditures

incurred by March 31, 2005, as detailed in Company witness Rhead's Revised Rebuttal Exhibit No. 16, Schedule 8.

To make clear the Commission's preference for future cases, we direct United Water to file future rate cases utilizing a 13-month average rate base methodology. To facilitate an adequate review, Company data should be provided in time to incorporate the information in the prefiled testimony of Staff and other parties. This will facilitate the hearing and decision processes by having similar time periods and information for the Staff and intervenor prefiled testimony, the Company's rebuttal, and at the hearing. Using recent, actual data for the hearing will reduce if not eliminate the need to argue over forecasts. To this end, the Commission suggests rate cases be filed with no more than six months of forecast data. Not only will data be known and measurable by the time other parties prefile testimony and for the hearing, it will be more convenient and administratively easier for all parties.

II. ADJUSTMENTS TO RATE BASE

Columbia Water Treatment Plant (CWTP)

Beginning in a Master Plan developed in 1998, United Water recognized that additional water supplies would be needed to serve a rapidly growing area in southeast Boise. Different studies completed since then confirmed that groundwater sources in the area were limited, and the Company thus began planning to build a surface water treatment facility. Tr. p. 598. United Water began the site selection process in the fall of 2000, and by December 2001 had selected a site located on Columbia Road. Tr. p. 120. The Company determined it would use a "design-build" approach for the construction, rather than the more traditional "design-bid-build" approach. Tr. pp. 120; 600. The design-build method enables the owner to contract with a single builder to both design and build the project, resulting in quicker completion of the project. United Water selected Camp Dresser McKee (CDM) Company as the builder, and executed a contract with CDM in September 2002 for construction of the CWTP. Tr. p. 122. The contract with CDM was a cost plus fixed-fee contract, and a guaranteed maximum construction price, in the amount of \$16,844,498, was not established until January 29, 2004. Tr. pp. 124; 608.

The CWTP uses micro-filtration technology rather than granular media filtration to clean water that United Water pumps from the Boise River. It has an initial capacity of six million gallons per day. Tr. p. 623. The treatment plant's capacity can be increased to ten

million gallons per day by adding membrane filters to existing facilities. Tr. p. 624. The treatment capacity of the CWTP can be increased to 20 million gallons per day with new construction added to the CWTP building. *Id.*

Staff did not question United Water's decision to build the CWTP, agreeing that the plant is necessary to accommodate existing and new customers in southeast Boise. Staff discussed concerns regarding the construction methodology, but did not recommend any disallowances based on the Company's decision to use the design-build method. Staff did recommend adjustments regarding the CWTP that affect both rate base and operating expenses related to the treatment plant. We discuss all CWTP related adjustments in this section.

The rate base adjustments Staff proposed to the CWTP costs were for an early completion incentive and costs of acquiring and constructing a plant larger than necessary for current treatment needs. United Water's contract with CDM includes an early completion incentive, that is, CDM is entitled to payment of \$3,500 per day that the facility is completed prior to June 1, 2005. United Water calculated daily construction costs at \$5,191 for each day that CDM is on-site. Tr. p. 137. The treatment plant was substantially completed 82 days before June 1, and United Water thus testified the early completion incentive cost \$287,000, but reduced the overall construction costs by \$138,662. Tr. pp. 155-56. At the time of hearing, the early incentive bonus had not been paid, because the Company was still "in the final close-out portion and developing the audit arrangements and what have you to determine the actual project costs." Tr. p. 156.

Staff objected to including the early completion bonus in construction costs for several reasons. First, Staff stated the CWTP was not needed until June, so it did not make sense to pay to complete the project early and have it sit idle. Tr. p. 621. Staff noted the Company always controlled the timing of the construction, and that completion of the construction was delayed by a year by the Company's own actions. Tr. p. 622. Finally, Staff argued there was no evidence indicating United Water customers would benefit by payment of the early completion bonus. Nothing in the construction contract "indicates that CDM will reduce the project costs if the project is completed early, nor is there anything in the contract that requires CDM to reduce its project management fee." Tr. p. 623.

We find on the record regarding the early incentive bonus that it is too early to determine the benefits and therefore it is not appropriate to include the bonus in United Water's

rate base in this case. The design-build construction method and contract may have reduced the ability to verify benefits from the early completion bonus. United Water did not adequately establish that the incentive bonus actually reduced the construction cost of the CWTP, nor does the CDM contract state a construction cost reduction resulting from payment of the early completion bonus. In addition, it is undisputed that the Company had not paid the bonus by the time of the hearing, and it may not be possible to determine the benefit resulting from the bonus until the Company completes the final audit and determines the project's actual costs. On this record, the Commission cannot find that the contract provision for the bonus was cost-effective and thus prudent. United Water is not required by this Order to write down its investment and it can keep an account of the early completion bonus, as well as other final CWTP construction costs, and present them in its next rate case for Commission review.

Staff also recommended disallowance of some CWTP construction costs because the plant was built larger than current need justifies. Staff testified "approximately 2.8 of the 11.5 acres (24.5%) on which the plant sits are currently unused and are intended for an additional future clear well, an additional future solids handling basin, and future Aquifer Storage and Recovery (ASR) project." Tr. p. 624. Staff also stated that approximately 3,200 square feet of the more than 23,000 square foot building have no current use, but appear to be reserved for a possible future ultraviolet disinfection facility. *Id.* Staff recommended reductions in the plant costs to be included in rate base to exclude portions of the plant and land held for future use.

The record does not establish that the Company's sizing of the CWTP land and building was imprudent. The Commission does not want to discourage economic sizing of projects. We find therefore in this case that United Water acted prudently and in the interest of customers when acquiring land and sizing the CWTP building.

Staff also raised the expected life of membrane filters at CWTP as an issue, which affects the depreciation period for the costs. The Company recommended a seven-year life, consistent with the warranty period of the filters. Staff recommended a ten-year life. The Commission accepts the Company's evidence on a seven-year life for the membrane filters, but notes the depreciation life should change as data is derived from actual experience with the filters.

Water Rights

United Water included costs of obtaining or strengthening its various water rights in rate base as utility plant in service. Staff reviewed the water rights' associated costs and recommended adjustments in three different accounts. United Water filed 112 applications with the Idaho Department of Water Resources seeking licenses and statutory claims and amendments to its existing water rights. The applications were filed under the Idaho Municipal Water Rights Act of 1996. Pointing to statutory language indicating the Act protects existing water rights for reasonably anticipated future needs, Staff stated that at least some of the costs associated with the Integrated Municipal Application Package (IMAP) should be excluded from rate base and booked as plant held for future use. Tr. p. 628. Staff recommended that a little more than half of the investment made by United Water, or the amount of \$332,748, be excluded from rate base.

Staff also recommended United Water's costs to acquire Permit No. 63-31409 be disallowed. That permit is a right to divert up to 20 cfs of flood flow from the Boise River for use as groundwater recharge and municipal use. Tr. p. 628. Noting that the Company's treatment plants do not currently have facilities for groundwater recharge, and the restrictions on the permit itself, Staff argued that \$29,697 for Permit No. 63-31409 be removed from the Company's rate base proposal.

The third water rights related cost challenged by Staff was for costs incurred in acquiring three licenses referred to as Initial Butte water rights. The Initial Butte licenses allow United Water to divert water from the Snake River. Because no United Water facilities are connected to the Snake River, the Initial Butte water rights are useful only if the Company can exchange Boise River rights for the Initial Butte water. According to Staff testimony, the Company was able to exchange its Snake River water rights for Boise River water rights, but the diversions from the Boise River are subject to restrictions. Staff testified that the restrictions limit the value of the Initial Butte water rights to approximately half of their amount. Tr. p. 632. In addition, a Company witness testified at the hearing that United Water will not receive any water from the Initial Butte rights this year, and in fact is leasing its Snake River water rights for 2005. Tr. p. 169. United Water's testimony at the hearing established the revenue the Company will receive for its Initial Butte lease. Tr. p. 212. Accordingly, we find the Company will receive \$152,584 for its leased rights, and find it appropriate to impute that amount to its annual income. When lease revenues are not received and the Snake River rights are exchanged for

Boise River rights, purchased water transactions should be reduced. This is therefore a reasonable imputation that increases net income, whether from lease revenues or from reduced purchased water expenses.

The Commission appreciates the Staff's diligent review of the costs associated with water rights. We are persuaded that the Company's costs were prudently incurred. It is undisputed that United Water has experienced steady growth in the number of customers in recent years, and that demand for potable water is increasing. The only method available to the Company to increase its supply of water is to obtain, strengthen and consolidate water rights in both surface water and groundwater. We believe the Company has acted responsibly in taking action to increase its water rights, even if it has enough water to supply current demands. Accordingly, the Commission accepts the Company's water rights costs to be included in rate base. It also is clear, however, that the Company will receive a monetary benefit from the Initial Butte water rights, through the 2005 lease. The Company was not forthcoming about that windfall. The Commission believes this revenue should accrue to the benefit of customers. Accordingly, the Commission will add the lease amount to the Company's income, thereby reducing its revenue requirement.

Allowance for Funds Used During Construction (AFUDC)

AFUDC is an accounting mechanism that recognizes the capital costs associated with financing construction. Generally, the capital costs recognized by AFUDC include interest charges on borrowed funds and the cost of equity funds used by a utility for purposes of construction. When utility plant is placed in service, the entire cost of the plant, including AFUDC, is added to rate base where it earns a return and is depreciated over the life of the plant. Tr. p. 532. Staff proposed adjusting AFUDC recorded by the Company in four different areas. One, Staff proposed that accrued AFUDC associated with a cancelled purchase order be removed from the Company's rate base. The Company removed the financial effect of this transaction from its records except for the AFUDC accrued during the time period before the funds were repaid or written off. Tr. p. 587. The Company agreed with this adjustment. Tr. p. 900. The financial impact of this adjustment is to remove \$258,772 from plant in service and remove the related depreciation expense and accumulated depreciation of \$12,939. This adjustment also increases taxes by \$5,201 for an operating income increase of \$7,738.

We find that the AFUDC on the cancelled purchase order should be removed from rate base as proposed by Staff and agreed to by the Company.

Two, Staff proposed that purchases of water rights not accrue AFUDC because water rights are clearly not construction work in progress (CWIP). Staff notes that while water rights are being pursued, the amounts expended can be booked to Preliminary Survey and Investigation Charges, Account 183. Once the water rights have been secured, they should be booked to the sub-account Land and Land Rights in the Plant in Service records. Tr. p. 533. The adjustment to remove AFUDC on water rights, including Initial Butte, reduces rate base by \$393,348. The Company disagreed with this proposal noting that it took several months to perfect the Initial Butte water right and that the asset was very similar in nature to CWIP. Tr. p. 908.

As to the accrual of AFUDC on water rights, we find that purchases of water rights should not accrue AFUDC and that it is appropriate to exclude it from rate base as proposed by Staff.

Three, Staff proposed that the equity income tax gross-up component of AFUDC be removed from Plant in Service and be reclassified as a Deferred Debit (Account 186). Staff also recommended that depreciation expense and accumulated depreciation associated with the equity income tax gross-up component of AFUDC be removed. Tr. p. 537. Currently, the Company is including an income tax gross-up on the equity component of AFUDC as part of the total AFUDC amount. Tr. p. 535. Staff asserts that doing so overstates plant in service that in turn overstates depreciation expenses and the corresponding accumulated depreciation. The Company disagreed and believes that the higher depreciation expense is offset by lower tax expense. The Company also asserted that not including the income tax gross-up portion of the equity component as part of AFUDC would deny the Company the opportunity to earn its authorized return. Tr. p. 905. The Company also disagreed with Staff's recommendation that the Company restate its books since the implementation of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109 (SFAS 109), stating that there would not be a material impact to warrant such an effort. Tr. p. 906. The financial impact of this issue is a \$696,346 reduction of plant in service, a \$696,346 increase in deferred charges, a \$13,566 decrease in depreciation expense (and related increases in taxes), and a \$7,323 reduction in accumulated depreciation. The net effect is an operating income increase of \$8,112 and a rate

base increase of \$7,323 due to the reduction in accumulated depreciation. The plant in service and deferred charges rate base adjustments net to zero.

We find that the equity income tax gross-up component of AFUDC should be adjusted as proposed by Staff in its testimony regarding SFAS 109. The Commission is not disallowing the equity component, instead we direct the Company to continue to calculate this component and record it as a deferred debit in a sub-account of Account 183. Because we are not disallowing the gross-up, the Company will have the opportunity to earn its authorized return. Further, we instruct the Company to include in its next rate filing a deferred debit that reflects the AFUDC tax gross-up component of AFUDC since the Company implemented SFAS 109 and make the necessary adjustments to depreciation expense and accumulated depreciation.

Four, Staff proposed that AFUDC should be stopped on all CWIP projects that are included in rate base but are not yet placed in service at the time rates become effective. If AFUDC is not stopped, the Company will be earning a return on the plant in rates and still accruing an AFUDC return for future recovery that would allow over-recovery and be inappropriate. Tr. p. 539.

We find that the Company should cease AFUDC accrual on all the CWIP projects that have been approved for inclusion in the Company's rate base. To allow the Company to continue to accrue AFUDC on the CWIP projects that we have included in rate base by this Order would amount to double recovery.

Deferred Debits

United Water sought inclusion in rate base of deferred charges for rate case expenses, power expenses, employee relocation costs, rents, Terra Grande and tank painting costs through May 31, 2005. The largest deferred charge in the Company's case, as identified in Healy Exhibit No. 1, Page 9 of 9, is \$1,550,000 for power expense. The rationale for changes to the deferred charges included in rate base will be discussed with the expense descriptions. The deferred charges associated with these expenses that we approve for inclusion in rate base are \$416,505.

Miscellaneous Rate Base Adjustments

United Water Idaho was charged an allocation of investment called PeopleSoft from a corporate affiliate. Staff proposed removal of these costs because documentation to support the allocation from the affiliate was not provided. Tr. p. 567. At hearing, the Company provided the

support necessary (Tr. pp. 860-861) and we find it is reasonable to include the PeopleSoft allocation in rate base.

The Company reduced rate base in its rebuttal case for investment in Arrowhead Canyon. Tr. p. 900. No party opposed this adjustment.

III. ADJUSTMENTS TO REVENUE AND EXPENSES

The operating expense adjustments and Commission allowed numbers are shown primarily on Attachment No. 2.

Uncontested Expense Adjustments

The Company proposed numerous adjustments to its test year operating expenses and revenues, some of which were contested by Staff. There are a number of revenue and expense adjustments that were not contested. At the outset of the hearing, Exhibit 132 was admitted showing all contested and uncontested operating expense accounts.¹ The uncontested operating adjustments are: Health Care; Post-Employment Benefits Other Than Pension (PEBOP); Tank Painting Amortization; Chemicals; Miscellaneous Operating Expenses for CWTP including Utilities, Security Alarm Monitoring, Sanitation; Variable Cost Savings Due to CWTP Operations; Customer Postage; Outside Computer; Outside Collection; Miscellaneous Customer Accounting Expenses; Amortization of Deferred Terra Grande Expenses; Removal of Carriage Hill Operating Expense; and Corrections to Test Year Miscoding of Expenses. We find it just and reasonable to accept the amounts listed on Exhibit No. 132 for the uncontested expense accounts. We also accept the other uncontested revenue and expense items reflected on Attachment No. 1 for the inclusion of Carriage Hill Sale Revenues and the removal of Non-regulated Management Service Fees. The debt interest and the Accumulated Deferred Federal Income Tax methodologies were uncontested at hearing and have therefore been calculated based on the Commission's decisions in this Order.

Payroll to O&M (Adjustment #1)

United Water in its rebuttal evidence proposed a pro forma expense for payroll to operations and maintenance of \$3,348,453. Staff proposed removing several expenses, resulting in a pro forma expense of \$3,229,013, a reduction of \$119,440 to the Company's adjustment. Staff reduced the Company's adjustments to payroll to O&M expense by removing employee

¹ In its filing the Company numbered the various expense adjustments. Staff referred to these adjustments using the same numbers as the Company, and we do the same in this Order.

incentive payments, salary of a newly created public relations/affairs manager position, and the difference between projected and test year overtime pay. On rebuttal the Company revised its initial pro forma adjustments for wage increases and the chief operator's wage to reflect actual numbers. The Commission finds the actual figure of 3.3% for wage increases and the actual annual salary of \$45,468.80 for the chief operator to be just and reasonable, and therefore accepts these adjustments to the Company's case.

1. Short Term Incentive Plan. Staff contended that the Company's pro forma payroll for the Short Term Incentive Plan (STIP) should be disallowed for five reasons: United Water employees are already sufficiently compensated with a generous salary and benefits package; STIP payments fluctuate and are not known and measurable; STIP objectives are for creating shareholder value and the overall success of United Water's parent company with no benefit to United Water Idaho; STIP rewards employees for doing a job for which they are already being compensated; and the STIP should be self-funding in that it only makes sense if the savings achieved are greater than the amount of incentive payments made.

In response to Staff's testimony, United Water stated that incentive pay represents less than 3% of total payroll dollars and is spread through all levels of the organization, and thus is not an extravagant expenditure. The Company argued that although incentive pay does fluctuate, it can be normalized like other expense items that fluctuate. Additionally, the Company contended that there is no linkage between the financial performance of Suez, its parent company, and the STIP. The Company stated that the goals of the STIP participants were as follows: 10% of goals tied to financial performance of United Water's regulated businesses as a whole; 30% of goals tied to the financial performance of United Water Idaho; and 60% of goals not tied to overall financial performance, but related to improving customer service. Tr. pp. 873-74. United Water stated it is moving, consistent with an industry wide trend, to an overall compensation philosophy of having base pay closer to the market median and more variable pay programs such as the STIP. Tr. p. 874. The Company also pointed out that not all STIP goals are intended to be self-funding as many are linked to improving service.

The Commission finds that, given the proportion and the magnitude of the actual STIP payments made by the Company, as well as the main goal and objective of the STIP to improve customer service, the amount the Company expended as employee incentive pay in this case is reasonable. Consequently, we find that \$133,462 should be included in the expense

calculation for payroll to O&M. The amount of capitalized incentive pay included in plant-in-service is \$135,630 with an associated depreciation expense of \$4,361.

2. Public Affairs Manager. Staff recommended disallowance of the \$56,000 annual salary for a newly created position of public affairs manager. Staff objected to the inclusion of this salary expense because at the time of filing its testimony the position had not been filled. Staff also believed that a major portion of the position's responsibilities would be for corporate image and lobbying, and should therefore not be included as part of the revenue requirement recovered in customer rates.

Company witness Wyatt testified on rebuttal that the public affairs manager position had been filled as of April 18, 2005 at an annual salary of \$56,500. Tr. p. 983. The Company provided a more detailed explanation of the job duties and responsibilities of the public affairs manager, which includes three major areas: media and public relations, community and governmental relations, and supervision of the outreach and education coordinator, whose job includes water conservation programs and educational activities. Tr. p. 984. The Company further stated that the major portion of the position's responsibilities will be media, public, and community relations, with a small portion associated with government relations. The Company testified that government relations was not limited to lobbying, but included relations with local city and county officials, as well as regulatory entities such as Idaho Department of Environmental Quality and Idaho Department of Water Resources affecting production, transmission, and distribution of water to its customers. Tr. p. 984. Additionally, the Company stated that additional duties would be direct involvement with customers such as bill messages and inserts, consumer confidence reports, media advertising regarding Company operations such as system flushing and water conservation, and customer surveys. Tr. p. 985.

The Commission finds that United Water demonstrated that the new position of public affairs manager has been filled at an annual salary of \$56,500, and that this expense should be included in its revenue requirement. We are satisfied that the job duties and responsibilities are sufficiently intertwined with the production, transmission, and distribution of water to United Water customers, and are not primarily lobbying.

3. Overtime Pay. The Company proposed a pro forma adjustment for budgeted overtime pay in excess of 2004 actual overtime pay. The Company estimated overtime pay at \$103,374. Actual 2004 overtime pay was \$99,136. Staff objected to the use of estimated

overtime pay because it is not known and measurable. Staff recommended removing \$4,238 to bring overtime pay to the actual level reported for the test year.

The Commission finds that actual test year expense should be used for overtime pay, as pro forma adjustments to test year data are only proper where the numbers are known and measurable. The projected amount is not known and measurable and thus overtime pay will be included at the actual test year level.

4. Above and Beyond the Call of Duty (ABCD) Awards. The Company requested in its original Application to include \$6,000 in rates for ABCD Awards. Staff objected to the inclusion of ABCD Awards in customer rates for three reasons. First, Staff stated that ABCD Awards are not known and measurable, pointing out that the Company has not made any ABCD Award payments to employees during the previous 18 months. Staff also contended that the award program compensates employees for merely doing a job that they are already being paid to do and that the award program should be self-funding. On rebuttal the Company did not contest Staff's position and excluded the ABCD Awards from its payroll calculation. We find it reasonable to exclude the Company's initially proposed \$6,000 ABCD Awards from customer rates.

Thrift Plan (Adjustment #2)

Staff proposed to remove \$1,321 from the Company's Thrift Plan, 401(k), expense. United Water proposed an adjustment to test year expenses for 401(k) matching contributions by using a weighted average contribution percentage for all employees, and then multiplying that percentage by pro forma eligible payroll. Tr. p. 448. Staff contended that the Company's estimate is neither known nor measurable and recommended using the Company's actual test year contributions.

We find that the actual test year contributions should be used for the Thrift Plan expense. United Water's 401(k) plan allows employees to cease or commence payroll deductions at any time, either ending or creating the Company's responsibility to make a matching contribution. With vacant positions, employee turnover, and the unknown elections of each employee to commence or cease deductions, pro forma adjustments to the test year data are not known and measurable. Consequently, we include in the test year expense the actual test year amount.

Pension Expense (Adjustment #4)

United Water has two traditional pension plans, one for bargaining unit employees and one for non-bargaining unit employees. Under the plans, participants will receive a set monthly income upon retirement based on their years of service and their final average earnings. The Company's proposed pension expense is calculated by an actuary on a business unit basis, which means United Water Idaho's pension expense is separately calculated and is not allocated from the corporate level. Tr. p. 451. United Water proposed to use the expense calculated under the methodology provided by Statement of Financial Account Standards No. 87 (FAS 87) for both pension plans, resulting in the Company's proposed pension expense of \$637,046.

Staff proposed an adjustment to pension expenses based on Idaho's share of the Employee Retirement Income Security Act (ERISA) minimum contribution that it calculated to be \$162,454, rather than the FAS 87 amount proposed by the Company. Staff objected to use of the FAS 87 pension expense calculation for ratemaking purposes for several reasons, but primarily because it is an accrual calculation that does not represent the actual amount of cash that a company is required to contribute to a pension plan.

The Commission finds, as we did in the recent rate cases for Idaho Power and Avista Corporation, that it is not appropriate for the purposes of regulatory reporting and rate recovery to use the FAS 87 accrual calculation. FAS 87 was developed for the purpose of having a standardized number for reporting pension liability on a company's financial statements. It is not meant to represent the actual contributions that a company makes to the plans' fund. The danger in allowing recovery of the FAS 87 amount in rates is that the Company may make no actual contribution to the plan, but recover the FAS 87 liability amount from customers, resulting in an unjustified windfall for the Company with no corresponding investment or benefit to customers. Given the speculative nature of the pension contribution calculation, we find that the goals of regulatory ratemaking and recovery are best met, under the facts of this particular case, by allowing recovery of the actual amounts of cash contributions that United Water would have been required to contribute to the plan for test year. In this instance the amount can best be represented by the ERISA minimum contribution level of funding that is calculated at \$162,454.

Deferred Early Retirement Plan Cost (ERP) and Enhanced Severance Package (ESP) Amortization (Adjustments #7 and #8)

United Water included in expenses for recovery \$1,288,669 in Deferred Early Retirement Plan expense and \$248,753 in Deferred Enhanced Severance Package expense. The Company proposed a 60-month amortization of both expenses resulting in an annual expense of \$257,734 for Deferred ERP and \$49,751 for Deferred ESP. Staff objected to the recovery of these costs because the Company did not prove that the benefits exceed the costs at the Idaho level, the Company did not receive authority from the Commission to defer these costs, nor did the Company follow its own internal procedures when deferring these costs. Staff referenced the Idaho Power case, Order No. 25880, and the Avista case, Order No. 28097, to argue that the deferral of significant expenses must be approved by the Commission before those expenses can be recovered in rates. Tr. pp. 462-63. Staff also cited United Water's internal policy which states, "in instances involving large dollar amounts or out of the ordinary circumstances, Regulatory Business will seek an accounting order from the Commission to ensure acknowledgement and thereby reduce the risk of not recovering the expense." Tr. p. 464.

On rebuttal the Company stated that there clearly were savings from the ERP at the United Waterworks level, and it was not reasonable to assume that savings at the parent company were not realized by United Water Idaho. Tr. p. 878. Additionally, the Company stated it had sent a letter to the Commission notifying it of the costs it planned to defer and its intent to seek recovery of the costs in a future rate case. Tr. p. 880. Although the Company argued that this procedure is consistent with the Company's actions for the 1999 ERP costs and with its internal policies for deferral of costs, the Company did not request Commission approval or authorization of the ERP expense deferral. *Id.*

The Commission finds that it did not provide authorization to United Water to defer the costs of the ERP and ESP, and further, that both were significant expenses requiring Commission authorization to defer. Therefore, we remove the corresponding annual expense resulting from the amortization of these costs. The reference to prior Commission Order Nos. 25880 and 28097 is on point. The Company's proposed recovery of the ERP and ESP costs through rates violates the principle that new rates are prospective and may not be used to recoup past expenditures unless preserved for that purpose by deferral or other regulatory action. The

Company was aware of these expenditures and had the opportunity to request rate relief or deferral of these costs for future recovery.

Purchased Water (Adjustment #9)

As part of its overall portfolio used to acquire raw water for use at its treatment plants, United Water makes contractual purchases of water through a variety of mechanisms including lease and rental agreements, and ownership and lease of shares in canal companies. Water acquired in this way is considered “purchased water” and booked as an expense for ratemaking purposes. Tr. pp. 634-35. United Water proposed, on rebuttal, the recovery of \$185,484 as purchased water expense. Staff recommended recovery of \$117,837, consisting of a budgeted test year expense and one signed new contract that was provided prior to Staff’s filing of testimony. Upon rebuttal and by the time of hearing the Company provided additional evidence consisting of contracts and leases for water purchases. Our review of the record indicates that a purchased water expense of \$160,366 can be substantiated by adding known and measurable contract and lease purchases to the test year expense. We find this amount to be a just and reasonable amount to be included in test year expenses.

Purchased Power (Adjustment #11)

The purpose of this adjustment is to account for the effect of Idaho Power’s Power Cost Adjustment (PCA) on purchased power expense, and to adjust for expected power costs at the CWTP, with its associated raw water pumping station. Staff’s proposed adjustments remove the effects of Idaho Power’s PCA from both the test year and from the current rates being applied to the estimated usage to reflect normalized purchased power costs. Additionally, Staff made adjustments to the estimates associated with the CWTP based upon updated information provided by the Company in discovery.

The Commission finds the PCA costs are ongoing, even though it changes annually. The current PCA costs effective June 1, 2005 are known and measurable and should be reflected in customer rates. We find \$1,826,433 to be the reasonable purchased power expense for inclusion in this case. Because the PCA changes annually, we direct United Water to establish a balancing account to accrue differences (both positive and negative) from this year’s kilowatt per hour PCA rate. United Water is also directed to file annual reports with the Commission showing the calculations and balance for the year. Recovery of the balance will be determined in a subsequent rate case.

Amortization of Deferred Power (Adjustment #12)

This adjustment relates to a deferred accounting order obtained by United Water in Case No. UWI-W-01-2, Order No. 28800. That case was initiated because of the power crisis and increase in power rates in 2001-2002 and the extraordinary impact the crisis had on Idaho Power's rates. Tr. p. 76. In Order No. 28800 the Commission approved "establishment of a deferral account for incremental costs related to recent and future PCA related increases in Idaho Power Company electric power rates beginning May 1, 2001 and reserves judgement [sic] regarding United Water's request for a carrying charge." Order No. 28800, p. 4.

Pursuant to Order No. 28800, United Water now seeks recovery of the deferred power costs in this case, and requests an end to the deferral account. The Company initially proposed to recover \$1,550,000. On rebuttal this amount was adjusted to \$1,469,292, consisting of booked numbers through April 2005, and use of the previous four-month average of \$6,348 for the months of May and June 2005. The Company requested an amortization period of three years, citing the average length of time, 2.4 years, between its last five rate cases. The Company and Staff agree that a 1% carrying charge would be appropriate.

Staff recommended that United Water be allowed to recover a deferral amount accumulated between May 1, 2001 and May 31, 2003. Staff interpreted Order No. 28800 to authorize deferral of power costs related to the short-term western energy crisis, and not to permit recovery of above normal power costs due mainly to poor water conditions. Additionally, Staff recommended a four-year amortization period to soften the impact of the recovery on ratepayers.

Although the impetus for the initiation and approval of Order No. 28800 was the western energy crisis in 2000-01, we find that the deferral Order was not limited to increased costs associated only with the crisis. The Order authorized a deferral account for incremental cost related to recent and future PCA related increases in Idaho Power's electric power rates beginning May 1, 2001. Additionally, the Commission found in that Order that it was reasonable to reserve judgment on recovery of the amount deferred, as well as the appropriateness of any carrying charge, until actual recovery was requested. We find the amount carried on the Company's books from May 1, 2001 through June 30, 2005 to be appropriate for recovery. We also find that an amortization period of three years strikes a reasonable balance of mitigating the recovery of the deferral while allowing the Company recovery of the amounts. Finally, we find

that a carrying charge is appropriate and that 1% is a just and reasonable amount to be included in the recovery of the deferred costs. We also find that United Water is not entitled to rate base the deferred amounts. This treatment is consistent with that allowed Idaho Power for its PCA costs.

Water Quality Testing (Adjustment #14)

The Company's compliance with a regimen of water quality testing required by water quality regulators adds an annual expense to the Company's service to its customers. Tr. p. 79. Generally, the parties agreed to the appropriateness of this expense with the exception of the cost of one particular test. The contested amount results from a new testing requirement starting in 2005 called "Long Term 2 Enhanced Surface Water Treatment Rule" (LT2ESWTR). *Id.* This test is required to be administered every two months for two years, 2005 and 2006, at an annual cost of \$12,000. Staff objected to the inclusion of this expense in the Company's permanent revenue requirement, because that would allow the Company to recover this increased amount from customers after 2006 when the test is no longer required. Staff recommended allowing recovery of 1/5 of the \$12,000 annual expense each year, or \$2,400.

The LT2ESWTR test is not optional and the Company is required to make the necessary expenditures to comply with its applicable water quality regulations. The Commission finds, however, that it would be unreasonable to allow the inclusion of the LT2ESWTR testing expense as if it were an ongoing, yearly expense. We find it just and reasonable to allow recovery of the \$12,000 annual expense amortized over a five-year period. Additionally, we find the remaining water quality testing expense as submitted by the Company on rebuttal, Adjustment No. 14, with amortization of the LT2ESWTR expense, to be reasonable.

Transportation Expense (Adjustment #17)

Staff objected to the inclusion of mechanic payroll and benefits in the Company's calculation of transportation expense. On rebuttal the Company agreed to removal of the mechanic expenses. The only remaining issue is the calculation of lease disposal proceeds realized by the Company on the sale of leased vehicles. Staff used the Kelly Blue Book value supplied by the Company, less the residual value, to calculate the disposal proceeds. United Water used an estimated wholesale value determined by its fleet manager, rather than the Kelly Blue Book value, that is generally 15% to 20% below the Kelly Blue Book value. The Company testified that its experience has shown that Company vehicles typically sell for 15-20% less than

Kelly Blue Book trade-in values, primarily because Company vehicles are not equipped with the types of options that non-utility buyers want and the vehicles sustain excessive wear and tear in their life of utility work.

The Commission finds based on the record that the Company's estimated wholesale value is reasonable. Without a physical inspection of the vehicles' condition and a detailed history of past sales and disposal, we cannot find that the Company's vehicles would sell for a higher value. We accept the Company's testimony that its vehicles used for utility company work do not have many features and options that make them desirable for a buyer on resale, and that a vehicle used exclusively for utility work may have extensive wear and tear. Consequently, we find it reasonable to use the Company's estimated wholesale value, less the residual value, to arrive at a lease disposal value of \$31,442.

Uncollectibles (Adjustment #22)

The only dispute with regard to the uncollectible expense, Adjustment No. 22, is the time period used in the calculation. The Company proposed to use a four-year average, stating that it recognizes that bad debt expense was unusually high during the test year. Staff proposes use of a five-year average, and also provided figures for the six and ten-year average uncollectible debt rate.

The Commission finds that the Company's use of a four-year average is reasonable. This more accurately represents the present trend and also recognizes that when rates go up, uncollectibles are also likely to go up. The four-year average sufficiently captures this trend, while mitigating the unusually high bad debt expense recognized during the test year period, resulting from the write-off of some unusually high bills.

IPUC Annual Assessment (Adjustment #23)

The Company's IPUC annual assessment expense from the test year is \$72,347. Staff used this number in its calculations. The Company originally calculated an adjustment to the test year expense by multiplying the 2004 assessment rate by pro forma revenue. On rebuttal, the Company multiplied pro forma revenue by the 2005 assessment rate, resulting in an estimated assessment of \$80,807. Staff testified that the Company's estimate was not known and measurable, but agreed that the 2005 actual assessment amount would be appropriate. Tr. p. 474. We find that the actual 2005 assessment amount is now a known and measurable amount and

thus find it just, reasonable, and appropriate to use the actual 2005 assessment amount of \$76,828.

Rate Case Amortization (Adjustment #24)

The Company initially requested an estimated amount of \$245,000 in rate case expense to be amortized over three years. Tr. p. 82. Staff objected to the amortization period and recommended a five-year amortization. Tr. p. 475. Staff also objected to including an estimated \$25,000 for a public information campaign and website enhancement on the basis they were for the purpose of enhancing the Company's image and goodwill. Recognizing that the campaign resulted at least partially from the need to inform customers of the pending rate case, Staff recommended that the expense be included at only 50%. On rebuttal the Company agreed to share this expense at 50%, and updated the estimated \$25,000 to an actual expenditure of \$17,066. Additionally, the Company updated its estimated rate case expense to \$305,000. Tr. p. 891.

Based on the particular facts of this case, including the frequency of rate case filings, the contested issues, the amounts in controversy, the proportional differences in recommendations from the Company, Staff, and other parties to the case, and our review of the record and evidence presented on the issue, we find that a proper amortization period for the recovery of United Water's rate case expense is four years. We further find that the record supports recovery of the initial amount requested of \$245,000, less \$8,533 for the split of the public information campaign. We are not satisfied the record adequately supports an increase to the Company's new estimated expense of \$305,000. The verified amount in the general ledger for rate case expense at the time the Company filed its rebuttal still had not exceeded the initial estimated expense of \$245,000. *See* Ex. 15, Sch. 3. Therefore, we find that this record supports recovery of \$236,467 in rate case expense to be recovered over a four-year amortization period, or \$59,117 annually.

Relocation Expense (Adjustment #25)

The Company requested recovery of \$135,825 over five years for deferred employee relocation expense, including \$130,093 to relocate one employee from southern California to Boise. Staff objected to the entire amount, arguing that the relocation policy of the Company was excessive and overly generous for a public utility that recovers its costs from customers. Tr. p. 479. Additionally, Staff argued that the position could have been filled from the Boise area

employee pool. Staff also removed \$5,732 of amortization expense known to expire in 2005. On rebuttal, the Company agreed that the relocation expense for that particular employee was unusually high relative to other expenditures for employee relocation, but stated that the proper remedy was to reduce the recovery of that expense, and not to disallow it entirely. Tr. p. 894.

After reviewing the breakdown of the large expenditure for the employee relocation in question, we find that the expenditure of over \$130,000 was excessive. However, based on the circumstances relating to this employee, we also agree with the Company that it is not appropriate to disallow the entire relocation expense. As we have done in the past, we will allow recovery of a reasonable amount of relocation related expense, recognizing that many businesses in our area offer relocation expenses in order to attract skilled and valuable employees. We find it just and reasonable to remove from recovery the amortization expense known to expire in 2005. We find that the Company may recover a total of \$80,000 as relocation expense to be amortized over a five-year period.

Business Insurance (Adjustment #26)

The Company projected that its business insurance expense will be \$1,083,000 for 2005. Staff objected, contending that the Company's proposed increase to the test year expenses for additional insurance costs are speculative and not based on known and measurable charges. Tr. p. 481. Staff recognized, however, that the test year expense for property insurance coverage was abnormally low due to a large, non-recurring property insurance credit of \$109,271. Therefore, Staff recommended the use of actual test year expense, increased by \$109,271.

We find the adjustments proposed by Staff to be reasonable and prudent. The Company's proposed additions to the test year expense are not known and measurable changes. The record demonstrates amounts paid by the parent company, United Water Resources, Inc., but does not clearly indicate those values on a United Water Idaho level. We recognize the addition to test year of \$109,271 as a known and measurable adjustment to compensate for a non-recurring credit and therefore find a business insurance expense of \$899,036 to be just, reasonable, and supported by the record.

Dues, Lobbying, and Charitable Contributions (Adjustment #27)

The Company removed from test year expenses \$14,005 for charitable contributions, county club dues and the lobby portion of industry association dues. Staff recommended the removal of an additional \$3,800 for sponsorships and scholarships, \$11,833 for holiday parties

and summer picnics, and \$1,800 for additional lobbying portions of industry association (NAWC) dues. While such activities may generally be good for the community and for employee morale, we find, consistent with Commission precedent, that it is not appropriate to recover these expenses from ratepayers. These activities primarily serve to enhance Company image rather than improve the production, transmission, and distribution of water. Consequently, a total of \$31,438 will be removed from the Company's test year expenses.

Information Technology (Adjustment #28)

The Company proposed an increase of \$51,046 over test year expense of \$156,140 for information technology (IT) support and infrastructure, driven partially by an upgrade/conversion of its financial system software. Staff objected to the adjustment as not supported by contracts or agreements and as an extraordinary and non-recurring expense. The Company provided contracts at the time of hearing. However, our review of the provided contracts does not support the Company's position, and in fact results in a lower number than even Staff proposed. Consequently, based upon the record, we reject the Company's adjustment and find the test year expense of \$105,094 to be just, reasonable, and supported by the evidence.

Outside Legal Services (Adjustment #32)

Staff objected to the inclusion of three specific outside legal expenses in the Company's calculation of the outside legal services expense. Staff stated that legal expenses related to the Carriage Hill system, the removal of the Cartwright tank, and Danskin related costs should be removed. The Company demonstrated on cross-examination of a Staff witness that the Danskin expense related to a subdivision named Danskin, rather than to the Idaho Power facility of that name. Tr. pp. 516-517. Staff also recommended that the legal expense related to United Water's intervention in Idaho Power's general rate case, Case No. IPC-E-03-13, should be amortized over a five-year period.

Typically, a company is not allowed to include for recovery in rates expenses that are for extraordinary, non-recurring events. The Commission finds that the Carriage Hill, Cartwright tank, and Danskin expenses are just such extraordinary, non-recurring events that should not be recovered in rates as if occurring each year. Thus, we do not include them in the expense calculation.

The rate case expense from the Company's intervention in Idaho Power's rate case is somewhat different. Idaho Power rate cases are recurring events, although typically not on an

annual basis, and not necessarily of the magnitude of the IPC-E-03-13 case. The Company has a substantial interest in Idaho Power's electric rates as a large consumer of electricity that cannot curtail its consumption when power rates increase. Given these considerations, we find it reasonable to allow recovery of the rate case intervention expense, amortized over a five-year period.

Expenses Related to Customer Growth, (Adjustment #30), Weather Normalization, (Adjustment #31), and Payroll Overheads (Adjustment #6)

Both Staff and the Company agreed on the methodology used to calculate payroll overheads, Adjustment No. 6, expenses related to customer growth, Adjustment No. 30, and expenses related to weather normalization, Adjustment No. 31. No other party objected to the methodologies. The Company and Staff differed, however, in their determinations of the correct numbers to use in the calculation, as these numbers are dependent upon the Commission's decisions on other contested expense items. Having resolved the contested expense categories and items used in the calculation of these three expenses, the Commission finds it appropriate to now use the agreed methodologies in calculating these expense amounts. Using the amounts for these adjustments as determined above, as well as the agreed calculation methodology, we find payroll overheads to be (\$753,493), expenses related to customer growth to be \$62,092, and expenses related to weather normalization to be (\$12,641).

American Jobs Creation Act Tax Credit

Staff recommended a pro forma tax adjustment related to the American Jobs Creation Act of 2004, also referred to as the Production Tax Credit. Staff stated the adjustment applies to all production facilities and will be available on CWTP and all other production plant. Staff also stated that the proposed adjustment was conservative, as the credit is currently 3% and will increase to 9%. The Company claims the formula to calculate the credit has not been prescribed so the exact amount of the credit remains unknown. It is uncontested that the credit will be taken by United Water for tax purposes. We included such a credit for Avista (Order No. 29602). We find that an adjustment for the Production Credit is reasonable and we accept Staff's methodology, in this case, for calculating the credit.

IV. RATE OF RETURN AND CAPITAL STRUCTURE

United Water presented evidence of its capital structure, cost of debt and recommended return on equity. Only the Commission Staff filed evidence on these issues, and

disagreed only with the Company's cost of debt and on the appropriate return on equity. Prior to commencement of the hearing, United Water and Staff reached agreement on the disputed issues. Accordingly, the two parties filed a Settlement of the Overall Weighted Cost of Capital, which also was admitted into the record at the hearing as Exhibit No. 131.

The Settlement identifies the difference between the Company and Staff position on the cost of debt and the recommended return on equity. Staff calculated the Company's cost of debt to be 6.45%, and United Water calculated a cost of debt as 6.9%. The parties agreed that the calculation methods remain in dispute but resolved this issue in the Settlement agreement by splitting the difference, arriving at a cost of debt of 6.675%.

United Water's prefiled testimony indicates an appropriate return on equity for the Company falls within a range of 10.8% to 11.2%. The Company recommended a return on equity of 11.1%. Staff's testimony indicated a range for an appropriate return on equity to be 9.25% to 10.25%, and Staff recommended 10% as the appropriate return. This issue is resolved in the Settlement agreement where the parties recommend a return on equity of 10.3%.

The Commission finds the Settlement of the Overall Weighted Cost of Capital to be fair, just and reasonable. The terms of the Settlement easily fall within reasonable ranges established in the parties' testimony, and is a fair resolution of the disputed issues. Based on the evidence presented, the Commission could have readily determined the Company's cost of debt and return on equity to be as resolved by the parties in the Settlement. In addition, no other party objected to the terms of the Settlement agreement. Accordingly, the Commission approves the Settlement of the Overall Weighted Cost of Capital and accepts the following.

Capital	Ratio	Cost Rate	Weighted Cost
LT Debt	53.41%	6.675%	3.565%
Minority Interest	0.13%	5.000%	0.007%
Equity	46.46%	10.300%	4.785%
	100.00%		8.357%

V. CALCULATION OF REVENUE REQUIREMENT

With the rate base, rate of return, and operating results established, the Commission determines United Water's revenue requirement with the following calculation:

1	Rate Base	\$126,824,685
2	Rate of Return	8.357%
3	Revenue Requirement (Line 1 x 2)	\$10,598,739
4	Adjusted Net Operating Income	\$9,158,707
5	Income Deficiency (Line 3 - 4)	\$1,440,032
6	Incremental Tax Multiplier	1.683
7	Revenue Requirement Deficiency	\$2,423,574
8	Intervenor Funding	\$11,942
9	Total Revenue Requirement Increase	\$2,435,516
10	Percent Increase Required	7.68%

VI. RATE DESIGN

United Water did not include in its Application or direct testimony any proposals to change its existing rate design. Currently the Company bills customers bi-monthly, and most residential customers, those with a ¾ inch meter, pay a fixed customer charge of \$14.47 on each bill. Summer rates are in effect from May 1 through September 30 of each year, and the summer commodity rates are 25% higher than non-summer rates. United Water proposed to increase the customer charge by more than 36%, based on the results of its cost-of-service study. In addition, in its rebuttal testimony, the Company proposed to switch to monthly billing, and presented evidence that the change would add more than \$1 million to its annual revenue requirement. Tr. p. 971. Also in rebuttal testimony, the Company and CAPAI presented a Stipulation to establish a low-income program, one feature of which would create a lower summer rate block on 3 ccf per customer bill.

Increase in Customer Charge

United Water presented the results of its cost-of-service study, which begins with the Company's proposed revenue requirement. Tr. p. 272. Assuming rates are increased as initially proposed by the Company, the cost-of-service study results "show that the present customer charges would need to be raised about 51% if brought 100% in line with customer costs." Tr. p. 284. United Water recommended "customer costs" be defined as all costs associated with the serving of customers, irrespective of the amount of water used, including "meter reading, billing, accounting, and collecting expense, and maintenance and capital costs related to meters and

associated services.” Tr. p. 275. Recognizing that a 51% increase in the customer charge would be unreasonable, the Company proposed an increase of 36%, or from \$14.57 to \$19.86 per customer bill for most residential customers. Tr. p. 284.

Staff as well as most of the intervenors opposed any increase in the customer charge. Staff recommended that only metering and billing costs should be included in a fixed customer charge that would be consistent with Commission decisions in the last Idaho Power and Avista rate cases. Tr. pp. 649-50. Because the current customer charge is more than enough to cover metering and billing costs, Staff recommended no increase in the current charge. Idaho Rivers’ witness described an increase in the fixed customer charge as “a penalty to average or low-volume users, and particularly to customers who have voluntarily made efforts to conserve,” and “may further weaken a customer’s incentive to conserve, since a larger percentage of their bill cannot be changed regardless of whether they waste water or conserve water.” Tr. pp. 938-39.

We are persuaded by the evidence against an increase in the fixed customer charge. The Company’s cost-of-service study indicates the current charge is twice the amount needed to recover customer costs related to meter reading and billing. Tr. pp. 650-51. We find that the current customer charge is sufficient to recover those costs that are directly attributed to the customer taking service. We do approve, however, slight increases in customer charges to round to the nearest tenth of a dollar, which for most residential customers would be an increase from \$14.47 to \$14.50. The various customer charges are derived from formulas that result in specific charges that may be confusing to customers. Allowing the Company to round the customer charges will allow modest increases in the charges and should simplify the understanding of the billing process.

Monthly Billing

United Water customers currently are billed every other month for their water service. The Company did not propose in its Application or its direct testimony to change the existing billing schedule. In its rebuttal testimony, however, the Company recommended the Commission direct the Company to switch to monthly billing. A Company witness testified the Company supported a change because monthly billing “would send customers a more current price signal which may enable them to more effectively manage their water use, and that the corresponding monthly payments would enable customers, especially low income customers, to better budget for their water usage costs.” Tr. p. 971. United Water requested the Commission

authorize an increase of \$1,086,000 in its revenue requirement to cover the anticipated annual operating costs associated with monthly billing. *Id.*

Testimony by other parties' witnesses discuss potential problems with proper price signals and some customers' ability to pay when water service is billed bi-monthly rather than monthly. For example, Staff recognized that bi-monthly billing delays the price signal because bills may be up to two months later than the water consumed. Because of the "lengthy lag under bi-monthly billing between when water is used and when the customer is billed for it, customers have limited ability to respond to price signals." Tr. p. 656. In addition, the higher summer rates, combined with bi-monthly billing, means some customers have difficulty paying their summer bills. *Id.* Witnesses for CAPAI and Idaho Rivers United expressed similar concerns.

We find insufficient evidence in this record to support a change from bi-monthly to monthly billing. Because the proposal was included only in the Company's rebuttal case, there was not sufficient opportunity to explore the reasonableness of projected costs or of more cost effective alternatives. Noting that the Company's estimated costs would increase its revenue requirement by 3.4%, Staff did not support making the change without an opportunity to evaluate the benefits compared to the costs. Tr. p. 673. Likewise, CAPAI's witness testified, in light of the anticipated costs, that a budget pay or level pay option would be better for low-income customers. Tr. pp. 425-26. A budget pay option would enable customers to pay their bill every month but would not require more frequent meter reading. CAPAI and Staff supported a workshop to explore monthly billing and other bill paying options. Although we do not direct in this Order that a workshop be convened, Staff and any other party is encouraged to propose a workshop to review possible changes to United Water billing procedures.

Stipulation Between United Water and CAPAI

The Stipulation between United Water and CAPAI was executed following a public workshop convened on February 23, 2005 to evaluate the need for and design a low-income assistance program for customers. The program designed by United Water and CAPAI has three components: a residential summer rate block, a "United Water Shares" program to provide bill paying assistance to eligible customers, and distribution of the Company's water conservation kits by CAPAI. To fund the program, United Water agreed to contribute \$10,000 for 2005, and then match customer contributions up to a maximum \$20,000 each year after 2005.

The summer block rate would provide 3 ccf of water to customers at the lower winter rate. CAPAI testified the small amount of water at the lower rate during the summer will “provide the bare minimum, non-discretionary . . . use of water at the lower winter rate.” Tr. p. 413. Retaining the lower winter rate on the first 3 ccf of water during the summer period will decrease the Company’s revenue by \$100,406. This amount would be spread over both the winter and summer rates to make the effect of the block rate revenue neutral. *Id.* The Idaho Rivers witness also supported the Stipulation in concept, but disagreed “with an assumption in Attachment A of the Stipulation with respect to the proposed 3 ccf consumption block, that ‘[i]t is reasonable to assume that low-income users would be in this low water consumption group.’” Tr. p. 943. Noting that average household water use is much higher than 3 ccf, the witness could “find no reason to believe that the 10% of UWI customers using the least amount of water correlates to UWI’s low-income customers.” Tr. p. 943.

The “United Water Shares” program would raise funds to provide credits to bills of qualifying low-income customers. Eligible customers are those at or below 150% of the Federal Poverty Guidelines, and would be eligible to receive a maximum of one \$50 credit per year. United Water agreed to initially fund the program with a \$10,000 contribution, and then match customer contributions up to \$20,000 per year. A modest administrative fee paid to CAPAI and the costs of providing bill stuffers would be booked as an operating expense by the Company. Although questions were raised regarding the effectiveness of the assistance program, no party objected to implementation of the program as described in the Stipulation.

The third component of the program is simply a plan to distribute United Water’s conservation literature and kits to low-income customers. CAPAI would provide the information and kits to customers who “come into direct contact with Community Action Agency staff.” Tr. p. 414.

We find the terms of the Stipulation between United Water and CAPAI to be reasonable and appropriate for implementation. We approve the summer block rate, not so much as assistance to low-income customers, but as a fair and reasonable rate design for all customers. Witnesses testified that the 3 ccf block is so small as to make little difference in summer bills, but we find it appropriate to implement the program as set forth in the Stipulation. The summer block component can be reviewed in the future and adjusted if evidence establishes a larger block would be fair and reasonable.

Miscellaneous Items

The Company proposed increases in miscellaneous service charges. Ex. 6, Sch. 3, p. 19. These proposed increases are for service reconnections, returned checks, and premise visits to collect payment of bills. Tr. p. 717. Staff accepted the increase from \$15 to \$20 for returned checks, but opposed the other increases. *Id.* Staff stated that the Company provided no rationale or cost support documentation indicating a need to increase any of the non-recurring charges. *Id.*

The Commission finds that an increase in the charge for returned checks from \$15 to \$20 is reasonable. This is the amount that the Legislature has determined will be allowed by statute to be charged for returned checks, and we agree that this increase is appropriate. With regard to the remaining proposed increases, we find that they are not appropriate and shall remain at the previously approved amounts. The Company provided no rationale for the proposed increases, and no underlying cost support documentation. On this record we have no reason to believe that the previously approved charges are unjust or unreasonable, and thus do not approve any increase to these charges.

Staff proposed increases for two adjustments to miscellaneous charges. *Id.* First, Staff recommended an increase in the price the Company charges for bulk hydrant sales. The Company's practice is to bill these sales at the normal commodity rate charged to all other customers. Staff recommended that this charge increase in the same amount that the commodity rate for all other customer increases as a result of this Order. Secondly, Staff proposed an increase in the rate United Water charges for rent on construction meters from \$20 to \$25 per month. Tr. pp. 647-648.

We find that the proposed increases to the amount the Company charges for bulk hydrant sales and rent of construction meters are reasonable, prudent, and consistent to other approved charges and rates as they simply correspond to the ordered increases in the commodity rates for all other customers of United Water.

INTERVENOR FUNDING

Both CAPAI and Idaho Rivers filed Petitions for Intervenor Funding pursuant to *Idaho Code* § 61-617A. Section 61-617A includes a statement of policy to encourage participation by intervenors in Commission proceedings. The Commission determines an award for intervenor funding based on the following considerations:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the commission; and
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor; and
- (c) The recommendation made by the intervenor differed materially from the testimony and exhibits of the commission staff; and
- (d) The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

Idaho Code § 61-617A(2). CAPAI requested an award of \$4,653.60, and Idaho Rivers' request was for \$7,288.49.

The petitions of both intervenors provide sufficient documentation to satisfy the requirements of Section 61-617A and Commission Rule of Procedure 161-165 for an award of intervenor funding. The witnesses of CAPAI and Idaho Rivers materially contributed to the Commission's consideration of the summer block rate. The Stipulation addressed by the CAPAI and Idaho Rivers witnesses was materially different from testimony and exhibits filed by Staff, and it addressed issues of concern to the general body of customers. Finally, the documentation of the costs and fees incurred by both CAPAI and Idaho Rivers establishes that both requests are reasonable in amount, and would constitute a financial hardship on these non-profit entities if not approved. Accordingly, we approve an award of intervenor funding to CAPAI in the amount of \$4,653.60, and an award to Idaho Rivers in the amount of \$7,288.49. Pursuant to *Idaho Code* § 61-617A(3), these amounts will be allowed as an expense for United Water in this case.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

United Water Idaho Inc. is a water corporation providing water service to the public within the State of Idaho, *Idaho Code* §§ 61-124, 61-125, and is operating as a public utility. *Idaho Code* § 61-129.

The Commission has jurisdiction over this matter as authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, 61-523.

As set out in the body of this Order, the Commission finds that the existing rates are unreasonable. The approved rates set forth in this Order are just and reasonable. *Idaho Code* § 61-622.

ORDER

IT IS HEREBY ORDERED that United Water's rate base in the amount of \$126,824,685 is reasonable and appropriate for determining its revenue requirement and customer rates. Further, the Company is entitled to an increase in its revenue requirement in the amount of \$2,435,516 that the Company may recover by a uniform percentage increase in rates and charges for all customers.

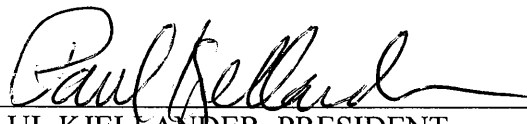
IT IS FURTHER ORDERED that United Water file tariffs in conformance with this Order with rates effective August 2, 2005 for service rendered on and after that date.

IT IS FURTHER ORDERED that United Water comply with all other directives of the text of this Order.

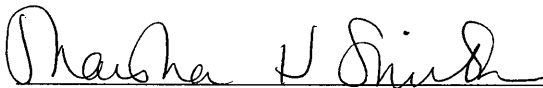
IT IS FURTHER ORDERED that CAPAI is awarded intervenor funding in the amount of \$4,653.60, and Idaho Rivers United is awarded intervenor funding in the amount of \$7,288.49. United Water is directed to pay these amounts within 28 days of the date of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

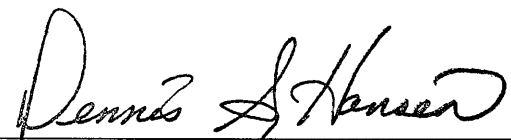
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 2nd
day of August 2005.



PAUL KJELLANDER, PRESIDENT

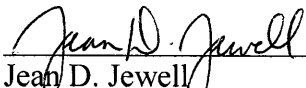


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:UWI-W-04-04_final_ws_dw

UNITED WATER IDAHO
UWI-W-04-4
13-Month Average Rate Base and Operating Results Test Year Ended July 31, 2004 with Pro Forma Adjustments

Line No.	Description	(A) UWI Rate Base per Company Records and Adjusted Test Year Operating Results (see Source below)	(B) Adjustment to 13-Month Average Rate Base and Accumulated Deferred Federal Income Tax	(C) Rate Base and Operating Expenses on 13-Month Average	(D) Adjustment to Eliminate Allowance for Funds Used During Construction (AFUDC) on Cancelled Purchase Order	(E) Adjustment to Include Initial Butte Lease Revenue	(F) Adjustment to Remove Water Rights AFUDC, Reclassify Tax Gross Up on AFUDC and Remove Associated Depreciation	(G) Adjustment to Include Jobs Creation Act Tax Credit
1	Utility Plant In Service	\$ 227,483,399	\$ 18,119,084	\$ 245,602,483	\$ (258,772)	\$	\$ (1,089,694)	
	Accumulated Depreciation, Amortization of Utility Plant Acquisition Adjustment (UPAA) and Amortization of Plant Held for Future Use (PHFU)							
2	Net Utility Plant	(55,287,819)	(1,848,750)	(57,136,569)	12,939	-	7,323	-
3		\$ 172,195,580	\$ 16,270,334	\$ 188,465,914	\$ (245,833)	\$	\$ (1,082,371)	\$
4	Customer Advances for Construction	(7,072,337)	201,816	(6,870,521)				
5	Contributions in Aid of Construction (net)	(44,670,359)	1,467,382	(43,202,977)				
6	Utility Plant Acquisition Adjustments (gross)	600,762		600,762				
7	Accumulated Deferred Income Taxes	(11,144,388)	(2,388,411)	(13,532,799)				
8	Pre-1971 Investment Tax Credits	(14,328)	-	(14,328)				
9	Deferred Charges	1,635,124		1,635,124				
10	Working Capital	2,045,126		2,045,126			696,346	
11	Total Rate Base	\$ 113,575,180	\$ 15,551,121	\$ 129,126,301	\$ (245,833)	\$ -	\$ (386,025)	\$ -
12	Operating Revenues	\$ 31,534,832	\$	\$ 31,534,832		\$152,584		
	Operating Expenses							
13	Operation and Maintenance	13,403,512		13,403,512				
14	Depreciation	6,386,509	(485,413)	5,901,096	(12,939)		(13,566)	
15	Amortization Of PHFU	9,329		9,329				
16	Amortization Of UPAA	6,395,838	(485,413)	5,910,425	(12,939)	-	(13,566)	-
17	Total Depreciation and Amortization	\$ 6,395,838	\$ (485,413)	\$ 5,910,425	\$ (12,939)	\$ -	\$ (13,566)	\$ -
	Taxes Other Than Income							
18	Ad Valorem	1,570,941		1,570,941				
19	Payroll Taxes	352,271		352,271				
20	Total Taxes Other	\$ 1,923,212	\$ -	\$ 1,923,212	\$ -	\$ -	\$ -	\$ -
	Total Operating Expenses							
21	Excluding Income Taxes	\$ 21,722,562	(485,413)	21,237,149	(12,939)	-	(13,566)	-
22	Operating Income Before Income Taxes	\$ 9,812,270	\$ 485,413	\$ 10,297,683	\$ 12,939	\$ 152,584	\$ 13,566	\$ -
	Income Taxes							
23	State Income Taxes	(234,009)	38,833	(195,176)	1,035	12,207	1,085	
24	Federal Income Taxes	1,552,475	156,303	1,708,778	4,166	49,132	4,368	(86,543)
25	Total Income Taxes	\$ 1,318,466	\$ 195,136	\$ 1,513,602	\$ 5,201	\$ 61,339	\$ 5,454	\$ (86,543)
26	Utility Operating Income	\$ 8,493,804	\$ 290,277	\$ 8,784,081	\$ 7,738	\$ 91,245	\$ 8,112	\$ 86,543

Source of Col. A: Rate Base (Lines 1 - 11) in Col. A from J. Healy Exhibit No. 1, Page 1 of 9, Col. A (per Books July 31, 2004)
Revenue (12) in Column A from F. Gradlone Exhibit No. 6, Schedule 1, Page 2 of 2, Col. 6
Operating Results (Lines 13 - 26) in Column A from J. Healy Exhibit No. 2, Col. 4 (Adjusted Test Year)

UNITED WATER IDAHO
UWI-W-04-4
13-Month Average Rate Base and Operating Results Test Year Ended July 31, 2004 with Pro Forma Adjustments

Line No.	Description	(H) Adjustment to Remove Non-Regulated UWI Management and Services Fees	(I) Adjust Carriage Hill Revenue per Commission Order	(J) Adjustment for Various Expenses and Related Deferred Charges	(K) Adjustment to Disallow Early Incentive Payments	(L) Adjustment to Reduce Arrowhead Canyon Plant in Service	(M) Debt Interest Restatement	(N) Commission Approved Rate Base and Pro Forma Operating Income
1	Utility Plant In Service		\$		(287,000)	(175,000)		\$ 243,792,017
2	Accumulated Depreciation, Amortization of Utility Plant Acquisition Adjustment (UPAA) and Amortization of Plant Held for Future Use (PHFU)							
3	Net Utility Plant	\$ -	\$ -	10,861	(276,139)	(175,000)		(57,105,446)
4	Customer Advances for Construction							186,686,571
5	Contributions in Aid of Construction (net)							(6,870,521)
6	Utility Plant Acquisition Adjustments (gross)							(43,202,977)
7	Accumulated Deferred Income Taxes							600,762
8	Pre-1971 Investment Tax Credits							(13,532,799)
9	Deferred Charges			(1,218,619)				(14,328)
10	Working Capital							1,112,851
11	Total Rate Base	\$ -	\$ -	(1,218,619)	(276,139)	(175,000)		126,824,685
12	Operating Revenues		\$5,628					\$ 31,693,044
13	Operating Expenses							
14	Operation and Maintenance	(20,678)		(1,040,897)				\$ 12,341,937
15	Depreciation				(10,861)			\$ 5,863,730
16	Amortization Of PHFU							0
17	Amortization Of UPAA							9,329
18	Total Depreciation and Amortization	\$ -	\$ -	\$ -	(10,861)	\$ -	\$ -	5,873,059
19	Taxes Other Than Income							
20	Ad Valorem			(4,556)				\$ 1,570,941
21	Payroll Taxes			(4,556)				347,715
22	Total Taxes Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	1,918,656
23	Total Operating Expenses	(20,678)	\$ -	(1,045,453)	(10,861)	\$ -	\$ -	20,133,652
24	Excluding Income Taxes							
25	Operating Income Before Income Taxes	\$ 20,678	\$ 5,628	\$ 1,045,453	\$ 10,861	\$ -	\$ -	\$ 11,559,391
26	Income Taxes							
27	State Income Taxes	1,654	450	83,636	869		123,546	\$ 29,306
28	Federal Income Taxes	6,658	1,812	336,636	3,497		342,874	2,371,378
29	Total Income Taxes	\$ 8,312	\$ 2,262	\$ 420,272	\$ 4,366	\$ -	\$ 466,420	\$ 2,400,685
30	Utility Operating Income	\$ 12,366	\$ 3,366	\$ 625,181	\$ 6,495	\$ -	\$ (466,420)	\$ 9,158,707

United Water Idaho
Operating Expense Adjustments

Adjustment No.	Description	Actual Twelve Months Ended July 31, 2004	Company Adjustments	Company Pro Forma Expense (Original)	IPUC Staff Pro Forma Expense	Company Pro Forma Expense (Rebuttal)	Difference, Staff vs. Company Rebuttal (10) = (8)-(9)	Commission Decision (11)	Commission Adjustment (12) = (11)-(7)
(1)	(4)	(5)	(6)	(7)	(8)	(9)	(10) = (8)-(9)	(11)	(12) = (11)-(7)
Summary	Adjusted O&M:	\$	\$	\$	\$	\$	\$	\$	\$
1	Payroll to O&M	3,155,584	232,555	3,388,139	3,229,013	3,348,453	(119,440)	3,343,688	(44,451)
2	Thrift Plan	90,156	1,321	91,477	90,156	91,477	(1,321)	90,156	(1,321)
3	Health Care	523,193	148,368	671,561	693,484	693,484	0	693,484	21,923
4	Pension	624,767	12,279	637,046	637,046	637,046	0	637,046	(474,592)
5	PEBOP	614,847	(145,345)	469,502	469,502	469,502	0	469,502	0
6	Payroll Overheads	(859,795)	(52,956)	(912,751)	(1,666,244)	(902,059)	(764,185)	(753,493)	159,258
7	Deferred Early Retirement Cost Amortization	152,208	105,526	257,734	0	257,734	(257,734)	0	(257,734)
8	Deferred Enhanced Severance Program Amortization	0	49,751	49,751	0	49,751	(49,751)	0	(49,751)
9	Purchased Water	107,788	87,528	195,316	117,837	185,484	(67,647)	160,366	(34,950)
10	Tank Painting Amortization-Old	3,096	6,091	9,187	6,141	6,141	0	6,141	(3,046)
11	Power	1,242,538	514,265	1,756,803	1,496,761	1,826,433	(329,672)	1,826,433	69,630
12	Amortization of Deferred Power	0	516,667	516,667	258,525	489,764	(231,240)	489,764	(26,903)
13	Chemicals	235,950	78,224	314,174	299,174	299,174	0	299,174	(15,000)
14	Water Quality Testing (Outside Lab Only) Columbia Water Treatment Plant Misc Opex- Telephone, Water Quality Testing, Natural Gas, other	78,348	7,662	86,010	71,670	81,270	(9,600)	71,670	(14,340)
15	Utilities, Security Alarm Monitoring, Sanitation	0	57,210	57,210	57,210	57,210	0	57,210	0
16	Variable Cost Savings Due to CWTP Operations	0	(139,580)	(139,580)	(139,580)	(139,580)	0	(139,580)	0
17	Transportation Expense	362,613	43,652	406,265	348,554	356,061	(7,207)	356,061	(50,204)
18	Customer Postage	170,280	8,061	178,341	178,341	178,341	0	178,341	0
19	Outside Computer	384,481	14,416	398,897	398,897	398,897	0	398,897	0
20	Outside Collection	99,590	(20,125)	79,465	79,465	79,465	0	79,465	0
21	Customer Records & Collection	0	0	0	0	0	0	0	0
22	Expense/Miscellaneous Customer Accounting	0	0	0	0	0	0	0	0
23	Expenses	18,009	(10,879)	7,130	7,130	7,130	0	7,130	0
24	Uncollectibles	162,706	(31,661)	131,045	125,516	131,045	(5,529)	131,045	0
25	IPUC Annual Assessment	72,347	3,476	75,823	72,347	80,807	(6,460)	76,828	1,005
26	Rate Case Expense Amortization	0	81,667	81,667	46,500	98,822	(52,322)	59,117	(22,550)
27	Relocation Expense Amortization	25,688	1,477	27,165	0	16,000	(16,000)	16,000	(11,165)
28	Business Insurance	789,765	293,535	1,083,300	899,036	1,083,300	(184,264)	899,036	(184,264)
29	Adjust Dues, Eliminate Lobbying & Charitable Give	14,005	(14,005)	0	(17,433)	0	(17,433)	(17,433)	(51,046)
30	Information Technology	105,094	51,046	156,140	105,094	156,140	(51,046)	105,094	(51,046)
31	Test Year Miscode	2,995	(2,995)	0	0	0	0	0	0
32	Expenses Related to Customer Growth	0	73,022	73,022	56,542	95,645	(39,103)	62,092	(10,330)
33	Expenses Related to Weather Normalization	0	(8,792)	(8,792)	(10,680)	(12,641)	1,961	(12,641)	(3,849)
34	Outside Services Legal	82,851	(28,851)	54,000	36,255	54,000	(17,745)	36,255	(17,745)
35	Amortization of Deferred Terra Grande Expenses	0	1,569	1,569	775	775	0	775	(794)
36	Removal of Carriage Hill Operating Expense	0	(986)	(986)	(1,631)	(1,631)	0	(1,631)	(645)
Total Adjusted O&M		8,255,104	1,933,193	10,192,297	7,471,110	10,173,440	(2,702,330)	9,151,400	(1,040,897)